

# EMBEZZLEMENT: What You Should Have Learned in Kindergarten about Taking What's Not Yours

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## Disclaimer

I am an owner of Practice Compliance Solutions, although there is no conflict with the material in this presentation. I am not a lawyer and do not provide legal advice. I am also not a CPA or financial expert, but I have been a victim of embezzlement



1

2

## Embezzlement – What Is It?

em-bez-zle-ment

*noun*

*Form of white-collar crime in which a person or entity misappropriates assets entrusted to him or her by his or her employer*

Investopedia



3

Theft statistics are astounding

It is pervasive

The Worst News:

If someone WANTS to steal, they will find a way

**If you think  
it hasn't  
happened to  
you ...Hold  
on to your  
hat**



4

Finance (2006)

Ever read stories about embezzlement and think *"Wow! What fools! How could they have not known their employee was stealing from them"....*

Remember, there's no safeguard that can protect your business 100%, but you can put processes in place to minimize the chances that you be the victim of embezzlement.

**The key is being PROACTIVE instead of REACTIVE.**



5

**We give credit to those who  
compile the statistics**

## Statistics Verification

Association of Certified Fraud Examiners (2012, 2021)

National White-Collar Crime Center (2018)

JW SURETY BONDS (2021)



6

Employee Theft Statistics	
Amount stolen annually from U.S. businesses by employees	\$400,000,000,000
Percent of annual revenues lost to theft or fraud	7 %
Percent of employees who have stolen at least once from their employer	<b>75 %</b>
Percent of employees who have stolen at least twice from their employer	37.5 %
Percent of all business bankruptcies caused by employee theft	<b>33 %</b>

7

More Employee Theft Statistics	
AMOUNT STOLEN	PERCENT
\$1,000,000 and up	25.3%
\$500,000 to \$999,999	9.6%
\$100,000 to \$499,999	28.2%
\$10,000 to \$99,000	16.8%
\$1,000 to \$9,999	7.0%
\$1,000 or less	1.9%
<b>MEDIAN AMOUNT STOLEN</b>	<b>\$175,000</b>

Here is the main action!  
45% between \$10K - \$500K

8

More Employee Theft Statistics	
DEMOGRAPHICS	PERCENT
Men	59.1%
Women	40.9%
High school diploma	34%
Some college	21%
Bachelor's degree	34%
Postgraduate degree	11%

No significant respect to gender or education

9

How are crooks caught?	
SOURCE OF REPORT	PERCENT
Tip from another employee	26.3%
Accidental discovery	18.8%
Internal audit	18.8%
Internal controls	15.4%
External audit	11.8%
Tip / Issue from customer	8.8%
Anonymous tip	6.2%

10

Other interesting facts	
ITEM	STATISTIC
Thefts committed by management	<b>37.1%</b>
Thefts by an employee who felt their ideas were stolen by management/company – or felt their contribution under-valued	<b>29.0%</b>
Average time fraud lasts before detection	<b>2 years</b>
Retail employees arrested for workplace theft	1 in 30

11

Sources of inventory loss	
SOURCE	PERCENT
Employee theft	<b>42.7%</b>
Customer theft	35.6%
Management error	15.4%
Vendor theft	3.7%
Unknown	3.9%

According to Forbes (2017).....  
Walmart loses \$3 BILLION a year with **33.2%** attributed to internal theft.

**Everyone is focused on customer theft!!!  
Who are your cameras watching?**

12

**EVERY COMPANY  
IS VULNERABLE  
TO EMBEZZLEMENT**  
80% of cases occurred at organizations  
with 150 employees or less.

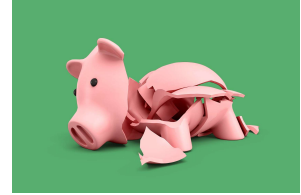
**The majority of theft does NOT occur  
in big business**



13

### The Five Major Ways Employees are Stealing From You (and they may be!)

1. Product theft
2. Check tampering
3. Payroll schemes
4. Billing schemes
5. Expense padding



ForbesWomen 2017



14

### Why do people steal?

- OPPORTUNITY
- THRILL
- NECESSITY

**BUT THE #1 REASON...**



15

**YOU OWE ME!**



16

### The Pain of Embezzlement

- The thief is usually an integral part of the staff
- The thief is usually a long-term employee who has made themselves INDISPENSABLE
- The thief usually has an isolated workplace
- The worst....***the thief is usually the person in the office you trust the most***



17

### How do they get away with it?

- Number One: **You're not looking for it** (Staff Poison Myth: *My staff loves me and would never hurt me!*)
- Embezzler makes themselves the sympathetic ear for the other employees
- Embezzler justifies their actions to other staff
  - "The doctor is just too busy to take care of these day-to-day things"
  - "The doctor has family / outside business / civic duties / professional responsibilities that are taking him/her away from the office"

**In most cases – I'M HELPING OUT!**



18

### What Can You Do To Lessen Your Chance of Embezzlement?

OPEN YOUR EYES  
GET INVOLVED  
DO IT YOURSELF



19

### Five Ways to Stop Embezzlement-Forbes

1. Conduct a fraud risk assessment – find your weaknesses
2. Know your numbers – **KNOW YOUR BUSINESS**
3. Segregate duties – NO ONE should have end to end control over finances
4. Conduct anti-fraud employee training – let them know you are AWARE
5. Cultivate a culture of integrity that begins at the TOP



20

### Deterrents to Embezzlement

- ✓ Open your own mail
- ✓ Mark all checks 'Deposit Only' the minute they are received
- ✓ Make or at least review your own deposits
- ✓ Have your bank statements sent ONLY to your home or your email



21

### Deterrents to Embezzlement

- ✓ Use a bank that places a copy of checks on the statement (or ability to view online)
- ✓ Make sure your check numbers are in order
- ✓ Do not destroy voided checks (at least until account is reconciled)
- ✓ If you have the volume, use 'Positive Pay'



22

### Deterrents to Embezzlement

- ✓ Do not use 'stamp' signatures – do not use digital signatures unless you control them
- ✓ Routinely monitor your accounts payable – anything over 30 days is suspect – over 60 is VERY suspect
- ✓ Routinely monitor your accounts receivable – check up on why someone owes you money (if you know an individual and it is very suspect give them a personal call)



23

### Deterrents to Embezzlement

- ✓ Know how much petty cash you have and mandate it balance every day
- ✓ **Know what your cost of goods are** – monitor where that stands monthly
- ✓ Post-dated checks are HIGHLY suspect
- ✓ When something doesn't add up, watch for 'computer excuses'



24

### Deterrents to Embezzlement

- ✓ Know what your vendors/ reps are giving away – have a policy for what happens to those perks
- ✓ NEVER sign something without reading it and knowing what it is



25

### Deterrents to Embezzlement that DIRECTLY involve staff

Be generous with your staff:

- ✓ Pay them appropriately
- ✓ Acknowledge their value to the practice
- ✓ Provide free or discounted services and materials to staff AND their families – but...
  - ✓ Do not let an employee 'check out' their own family
  - ✓ Have a discount request form that YOU approve



26

### Deterrents to Embezzlement that DIRECTLY involve staff

- ✓ Make it known that staff can contact you after business hours
- ✓ NEVER play favorites – this not only engenders jealousy and entitlement but in this day and age is commonly considered discrimination
- ✓ Be kind...but watch getting too close to your staff
- ✓ Consider background checks for those who handle money (but there are rules!)



27

### Deterrents to Embezzlement that DIRECTLY involve staff

- ✓ Make sure your Employee Manual has an honesty policy and potential conflicts disclosure
- ✓ Practice 'MBWA' – *Management by Walking Around*
- ✓ Limit information to only those employees who must have it
- ✓ Do NOT allow employees to take work home (major HR issue as well)



28

### Deterrents to Embezzlement that DIRECTLY involve staff

- ✓ Use surveillance (make sure you do it according to laws in your state – usually is!)
- ✓ When terminating an employee, especially an adversarial situation, make sure you or management supervises them gathering their belongings. Then takes their keys and ALWAYS delete and DO NOT REUSE their codes and passwords



29

### WATCH FOR THE COMMON TRAITS OF PERPETRATORS

- Living beyond their apparent means
- Intelligent and curious – ask a lot of questions about process
- Sudden change in spending habits
- Defensiveness
- Being overly conscientious
- Displaying/known addiction issues
- Personal changes – divorce, family issues, high stress load



30

### What DO YOU DO AFTER YOU FIND IT - NOT AN EASY CHOICE SOMETIMES

- ? GET YOUR MONEY BACK
- ? PROSECUTE
- ? SUE



31

### Bonus Tips

- OVER insure yourself
- See if your general insurance coverage does or can include business loss coverage



32

### IF YOU THINK IT CAN'T HAPPEN TO YOU

*Here are just a FEW examples from our experiences – they could go on and on*



33

### IF YOU THINK IT CAN'T HAPPEN TO YOU

*TRUSTED STAFF MEMBER WENT TO THE BANK,  
OPENED ANOTHER ACCOUNT WITH THE  
STAMPED SIGNATURE OF THE DOCTOR, CASHED  
MEDICARE CHECKS*

*Total amount when caught: **\$365,000.00***



34

### IF YOU THINK IT CAN'T HAPPEN TO YOU

*15-YEAR EMPLOYEE CAUGHT AFTER DOCTOR  
FINALLY NOTICED COST OF CONTACT LENSES WAS  
GOING UP. EMPLOYEE WAS TAKING CONTACT  
LENSES TO THE FLEA MARKET AND RESELLING.*



35

### IF YOU THINK IT CAN'T HAPPEN TO YOU

*PAST ASSOCIATION PRESIDENT WAS **ABSOLUTELY SURE**  
AFTER HEARING A LECTURE ON THE SUBJECT, THAT IT  
COULDN'T HAPPEN TO HIM. TOOK A LOOK AT HIS BOOKS  
AND REALIZED SOMETHING WAS OUT OF WHACK.  
LONG TIME EMPLOYEE HAD A GAMBLING ADDICTION, WAS  
TAKING SIZEABLE PETTY CASH ON FRIDAY BEFORE SHE  
WENT TO GAMBLE AND MONDAY IF SHE HAD A BAD  
WEEKEND.*



36

### If you think it can't happen to you

The most trusted employee I ever had, who knew me since childhood, who was one of two finalists for a national professional award at the time, stole \$40K from me in two month's time by discovering a programming flaw in Peachtree software. The flaw has since been fixed because of what happened to me. She was able to print checks to herself but change the payable to a vendor. She left me with no money and two month's worth of payables. I thought I had signed checks to the vendors, but she threw those away, and re-printed them.



37

### IF YOU THINK IT CAN'T HAPPEN TO YOU

We had a guy that was taking cash out of the till. To make it worse we found out he was coming back after hours and living in the upstairs area over our office. This was not even part of our leased space but he could only get to it through our office. He had a key.



38

### Lessons learned

- No one is above suspicion—even the best, the brightest, and the most trusted.
- No one should open a bank statement in your office but you.
- Even the very best accounting software has security flaws in it.

To quote Irv Borish - ***"Everything that happens in your practice is your fault."***



39

**MOST IMPORTANTLY  
BE AWARE!**



40

**Thank You!**

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41